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**United States District Court
Northern District of California**

Peter Siegel,

Plaintiff,

vs.

Hewlett-Packard Company,

Defendant

)
) Case No: 5:12-cv-03787 HRL _____
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REQUEST FOR JUDICIAL NOTICE

REQUEST FOR JUDICIAL NOTICE

Peter Siegel, Plaintiff, hereby requests that the court take judicial notice, pursuant to Rule 201 of the Federal Rules of Evidence, of the attached Exhibits and Exhibits attached to the Declaration of Karen E. Ford filed herewith. A federal court must take judicial notice of facts “if requested by a party and supplied with the necessary information.” Fed. R. Evid. 201(d). The first document (Exhibit A) attached is in the record of the District Court of Travis County, Texas, filed in *Hewlett Packard Company v. Gregg Hansen and Todd MacKenzie*, No. GN 12004027 (Travis Dis. Ct.). “Federal courts may ‘take notice of proceedings in other courts, both within and without the federal judicial system, if those proceedings have a direct relation to the matters

1 at issue.” *Cactus Corner, LLC v. United States Dep't of Agric.*, 346 F. Supp. 2d 1075, 1092 (E.D.
2 Cal.2004); *Easley v. County of El Dorado*, 2010 U.S. Dist. LEXIS 117033 (E.D. Cal.2010).

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4 The category of documents are the annual reports and related filings filed by defendant
5 Hewlett Packard Company with the United States Security and Exchange Commission (SEC). A
6 court may take judicial notice of facts that “can be accurately and readily determined from
7 sources whose accuracy cannot reasonably be questioned.” Fed. R. Evid. 201(b)(2). Federal
8 courts make “take judicial notice of properly-authenticated public disclosure documents filed
9 with the Securities and Exchange Commission.” (*Oran v. Stafford*, 226 F.3d 275, 289 (3d
10 Cir.2000) (quoting *Kramer v. Time Warner, Inc.*, 937 F.2d 767, 774 (2d Cir.1991)).

11 The third category of documents are the filings by Defendant Hewlett Packard with the
12 Companies House in the United Kingdom. The Companies House is the United Kingdom’s
13 version of the Securities and Exchange Commission. As such, information from the Companies
14 House should be treated as facts that “can be accurately and readily determined from sources
15 whose accuracy cannot reasonably be questioned.” Fed. R. Evid. 201(b)(2). In addition, attached
16 as Exhibits__ hereto are true and correct copies of records maintained by the government of the
17 United Kingdom concerning the rate payer of property taxes for the property located on Cain
18 Road at which HP Enterprise Services UK Limited has offices. The records show that the actual
19 rate payor (main occupant) of the property is Hewlett Packard. The UK tax records are also facts
20 which “can be accurately and readily determined from sources whose accuracy cannot
21 reasonably be questioned.” Fed. R. Evid. 201(b)(2).

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23 Attached hereto as Exhibit A is a true and correct copy of the prepared statement of
24 Lester Ezrati given in his testimony to the US Senate on September 20, 2012. A court may take
25 judicial notice of the records and reports of administrative bodies, including testimony given at a
26 California State Senate proceeding. *E. & J. Gallo Winery v. EnCana Energy Servs.*, 2008 U.S.
27 Dist. LEXIS 80734 (E.D. Cal.2008). Accordingly, here, the court may take judicial notice of
28 testimony given at a Federal Senate proceeding.

1 As such, Plaintiff respectfully requests the court take judicial notice of the documents
2 described herein and attached hereto.

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4 Respectfully submitted,

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6 Dated this 6th _day of August, 2013

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9 /s/
10 Karen E. Ford Esq.
11 Attornev for Plaintiff
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EXHIBIT A

Statement of

Lester D. Ezrati
Senior Vice President, Tax
Hewlett-Packard Company

Accompanied By

John N. McMullen
Senior Vice President and Treasurer
Hewlett-Packard Company

Before the

U.S. Senate Homeland Security and Governmental
Affairs Committee
Permanent Subcommittee on Investigations

Thursday, September 20, 2012
2:00 p.m.

Chairman Levin, Ranking Member Coburn, and Members of the Subcommittee: My name is Lester D. Ezrati. I am the Senior Vice President for Tax at Hewlett-Packard Company (HP). I have spent nearly my entire three-decade professional career at HP, and have held my current post since 1999. I am an attorney and my duties include providing tax advice to my client, HP. My group provides the advice necessary regarding HP's obligations to pay taxes in over 100 countries, including the U.S., and prepares the relevant reporting documents.

I am accompanied today by my colleague, John N. McMullen, the Senior Vice President and Treasurer of HP. Mr. McMullen has spent three decades advising corporations, including companies such as Compaq, which was acquired by HP in 2003, and he has held his current position since 2007. One of Mr. McMullen's key responsibilities as Treasurer is to provide HP with the cash it needs to meet its obligations in the U.S. and abroad. Both Mr. McMullen and I will provide answers to the Committee's questions depending on the area of expertise required.

HP has produced over 330,000 pages, has voluntarily permitted interviews of our personnel and has sought to cooperate for the past three years in every way possible with the Committee's inquiry.

BACKGROUND ON HP

HP is a great American success story. Headquartered in Palo Alto, California, HP was established in the proverbial garage with less than \$500 in 1939 by Bill Hewlett and David Packard.

Today, the HP Garage stands as the enduring symbol of innovation and the entrepreneurial spirit and is an historic site that marks the birthplace of Silicon Valley.

That humble company that Bill and Dave created is now the world's largest provider of information technology infrastructure, software, services, and solutions to individuals and organizations of all sizes. HP is unmatched in the breadth of our portfolio and scale. Our portfolio spans servers, storage, networking, personal computing, imaging and printing, software, services, and solutions. We bring the advantages of that scale, the breadth and depth of our portfolio, our innovation, and our competitiveness to our customers every day and in almost every country in the world.

Over one billion people rely on HP technology every day. We operate in approximately 170 countries with a workforce of over 320,000.

And, our supply chain is the largest in the IT industry, encompassing more than 700 production suppliers that employ over 300,000 workers.

In addition, HP has 145,000 sales partners, 210,000 service partners, and 88,000 retail locations.

Which is to say that HP is a truly global entity, creating technology that positively impacts individuals and businesses all around the world.

Doctors in Norway are providing up-to-the-second, lifesaving care to their patients with HP systems that are always on and always connected. In Canada, a non-profit organization is using HP cloud computing technology to decrease the amount of time it takes to trace and remove potentially harmful food products from the supply chain once a recall is issued. And in Brazil, we're working long-term with a company to design an infrastructure that not only meets their sustainability goals, but also will create new jobs in the region.

It's because of our unique combination of size, scale, and global presence that we can pioneer new markets, make technology accessible and affordable for customers, use our natural resources efficiently, and invest in the research required to enable the next round of technological breakthroughs.

GLOBAL CITIZEN

HP advances the way people live and work. In ways large and small, HP's commitment to global citizenship touches countless lives, businesses, and communities worldwide, every moment of every day.

David Packard said that, "the betterment of our society is not a job to be left to a few; it is a responsibility to be shared by all." Living up to that same commitment and ideal, HP applies the power of our technology, partnerships, and the expertise of more than 320,000 employees worldwide to have a positive impact on society and the world.

For example, HP is helping improve world health through drug authentication and by accelerating the diagnosis of HIV in infants. We're helping improve world education through the HP Catalyst Initiative, which brings together some of the best educators to devise new ways of engaging students in science, technology, engineering, and math (STEM). We're helping improve world working and living standards through the power and leverage of our supply chain. We're helping make the world more sustainable by continuing to meet and exceed our industry-leading goals for reducing the environmental impact of our operations and products, and by helping our customers reduce their environmental impact. And, we're helping get the world involved with HP employees and retirees, volunteering more than 744,000 hours of their energy and expertise last year.

We also recognize that the world's challenges are too big for any single organization to address alone, so we're teaming up with partners worldwide to find solutions. We cultivate relationships with diverse stakeholders, such as social entrepreneurs, industry peers, governments, and nongovernmental organizations (NGOs). In addition, to promote higher standards across sectors, we were one of the first signatories to the U.N. Global Compact.

At HP we are driven to solve environmental and social challenges by uniting the power of people and technology. Specifically, we improve lives and business every day by focusing the collective power of our people, portfolio, and partnerships where we can have the greatest impact – environment, health, education, and community.

Environment

HP has been a leader in environmental responsibility for decades. Its efforts to innovate and design for the environment (taking responsibility of our products from cradle to grave) represent a long-standing commitment, and a sincere belief that what is good for the planet is good for business. Consumers and businesses around the globe purchase millions of HP PCs, printers, and print supplies each year, and the company realizes the potential impact HP, its products, customers and partners can have on the environment.

HP helps people prosper, while respecting the environment. Our portfolio of products, services, and solutions helps customers achieve more with fewer resources and less waste. In 2011, HP products are 50% more energy efficient compared with 2005.

We collaborate to promote sustainability throughout the IT supply chain. Our efforts include improving the environmental performance of our sourcing, manufacturing, and shipping partners, and joining forces with other industry and environmental leaders to find innovative approaches to supply chain management. For example, we have produced more than one billion Original HP ink cartridges using recycled plastic.

HP innovates to reduce our own environmental footprint and drive sustainable growth. We are continually working to reduce our consumption of energy, paper, and other resources, and to cut greenhouse gas emissions. And, we share many of our innovations with partners and customers, creating new markets for forward-looking businesses.

In 2011 alone, HP reduced greenhouse gas emissions by 20% compared with 2005.

HP is proud of its environmental record and to be recognized for our leadership position in the annual Newsweek Green Rankings. In 2010, HP ranked first on the America's Greenest Companies list and in 2011, HP was ranked second. We continue to remain committed to leadership in environmental sustainability both within the technology sector and beyond through a variety of programs within our own operations, that of our supply chain and in the products and services that we deliver to market. This type of third-party recognition helps to remind us of the importance and impact of our sustainability initiatives across the business and to the world at large.

Health

Through our partnerships, technology, and mobile health solutions, we are making a positive impact on global health, helping to save lives. We improve access to lifesaving information and quality care through better use of technology. By applying our technology and infrastructure solutions in innovative ways, we are removing barriers, improving efficiency, and strengthening health systems across the globe.

HP collaborates with experts to find new solutions to health and human service challenges. By rethinking processes and innovating solutions with governments, private sector, and NGO

partners, we are able to make a positive impact on global health, system wide. We are a lead partner with the Clinton Health Access Initiative (CHAI) to advance infant health care in Africa with early infant diagnosis testing for HIV. With 100,000 infants tested to date, the Early Infant Diagnosis Project dramatically improves testing and treatment for infants exposed to HIV in Kenya each year. The program has been expanded to Uganda and Nigeria in 2012.

To help save thousands of lives, HP is providing the technical solutions supporting a new flagship teaching hospital (Mirebalais Hospital) that will change the face of public health care in Haiti. This 180,000-square foot, 320-bed hospital is due to open its doors in early 2013.

HP is also working to prevent human errors in medical settings to save lives. HP and the Lucile Packard Children's Hospital at Stanford have developed the Patient-Centered Dashboard to alert staff of changes in care. These innovations in health care delivery will dramatically enrich society by using the breadth and scale of technology to drive structural, systemic improvements in health access and delivery. This project has been designed as a replicable solution that can be expanded to other hospitals in the U.S. and around the world to help save lives.

Education

We empower the next generation of innovators with breakthrough products and solutions that advance science, technology, engineering, and math (STEM) teaching and learning. We are doing this by creating powerful learning experiences that give pioneering minds the skills and inspiration to shape a better world.

STEM education is key to innovative breakthroughs and economic growth. But STEM literacy is lagging worldwide. HP is empowering a global network of educators to strengthen STEM learning through the HP Catalyst Initiative. Fifty-six organizations from 15 countries have joined one of six consortia to transform teaching and learning, using technology in innovative ways. By the end of 2012, we expect 250,000 students around the world will benefit from the HP Catalyst Initiative.

Entrepreneurs are the backbone of our global economy. However, many new business owners lack the business and IT skills to turn their ideas into economic success. The HP LIFE eLearning Initiative helps bridge this gap, giving entrepreneurs the skills they need to succeed. The free, cloud-based global program trains students, entrepreneurs, and small business owners to apply these skills to make an immediate positive impact in their company. Since launching in 2007, HP LIFE has reached more than 1.2 million people in 49 countries, helped to establish and expand over 19,700 businesses, and supported approximately 42,900 people in their efforts to find work.

Today's youth are tomorrow's solution-providers and job-creators. Nurturing their innovative ideas and teaching them business skills will prepare these future leaders for success. Working in collaboration with Junior Achievement, we helped develop the Social Innovation Relay. Crossing six continents, the Relay is an interactive, web-based competition that allows teens to think like social innovators and develop ideas to help solve the world's most pressing challenges. In 2011, nearly 10,000 students and 185 HP volunteers participated in the learning program.

Community Engagement

HP enables our 320,000 employees to apply their time, talents, and HP technology in service to others. With a particular focus on skills-based *pro bono*, we offer employees time and technology to help the nonprofits and education organizations they are most passionate about. We collaborate with community and global organizations to act where the needs are greatest. For example, HP employees and retirees donated more than 744,000 hours to volunteer projects. That time spent giving back to communities is valued at nearly \$26 million.

HP employees and the Hewlett-Packard Company Foundation (Foundation) also made significant donations to NGOs, schools, and disaster relief efforts. The Foundation provides employees in the U.S. with one-to-one cash matching for gifts to qualified nonprofit organizations, at up to \$1,000 per employee, per fiscal year. In 2011, HP employees in the U.S. donated cash totaling approximately \$3.8 million, matched by \$3.1 million from the Foundation. Since 2007, HP and its employees have donated \$30 million through the program.

In addition, U.S. employees can donate HP technology to qualified charitable organizations or schools. Employees contribute 25% of the product list price and HP contributes the remaining amount. In 2011, HP and its employees in the U.S. donated products worth approximately \$5 million. Since 2007, HP and its employees have donated products valued at approximately \$30 million.

When disaster strikes, HP responds with people, technology, services, and expertise to solve immediate challenges and support ongoing recovery efforts. In 2011, HP employees, HP, and the Foundation donated money, equipment, and expertise in response to natural disasters.

2011 HP Disaster Relief Donations:

- Japan (earthquake/tsunami) \$2,302,000
- Thailand (flooding) \$368,000
- East Africa (drought) \$300,000
- United States (storms/tornadoes) \$210,000
- Australia (flooding) \$100,000
- Brazil (flooding) \$100,000
- New Zealand (earthquake) \$100,000
- Sri Lanka (flooding) \$100,000
- Turkey (earthquake) \$50,000

U.S.-BASED WORLDWIDE COMPANY

I am extraordinarily proud that my company employs about 80,000 U.S. employees. Most of these U.S. jobs are highly-skilled, high-value, high-wage jobs.

Our largest sites in the U.S. are based in California where the company and HP Labs are headquartered; Texas where HP manufactures and assembles our high-end servers; and Michigan where HP provides IT services for General Motors's global operations and the State of Michigan

and where we recently opened a new software development center. HP employs nearly 6,000 Michiganders with high-skilled, high-paying jobs.

Thirty-five percent of HP's employees are located in the U.S. Sixty percent of HP's worldwide workforce paid more than \$100K per year resides in the U.S.

HP has an enormously favorable impact on the U.S. economy. In addition to payments to HP's many U.S. suppliers, HP in 2011 paid about \$10.3 billion in salaries and wages to U.S. employees.

HP's impact on U.S. jobs extends well beyond the U.S. employees of HP. Clearly, adding jobs in high tech has a significant multiplier effect on other employment.

It is also important to highlight for the Committee members that most of HP's global intellectual property is owned in the U.S. For many product lines, even when R&D is conducted by HP subsidiaries outside of the U.S., HP in the U.S. pays for the R&D so that the IP is owned in the U.S.

In addition, HP spent \$3.3 billion on R&D during its 2011 fiscal year. About two-thirds of this R&D was conducted in the U.S.

So, when compared to revenue sources (which I will address in a moment), a disproportionately high percentage of R&D activity is conducted in the U.S. and a disproportionate number of highly compensated workers are in the U.S.

However, this success in the U.S. is contingent upon our success in foreign markets. I want to emphasize that HP's success in foreign markets is complementary to and drives U.S. employment.

HP has substantial foreign operations and conducts our business on a worldwide basis. In 2011, HP derived 65% of our annual revenue from non-U.S. customers. This percentage has been gradually increasing for 30 years, and there is nothing to indicate that this trend will not continue for many years ahead. To demonstrate the point, in the early 1980's, revenue from non-U.S. customers was less than 45% with worldwide revenues of \$10 billion. In 2011, HP's worldwide revenue had grown to \$127 billion, which means that U.S. revenue has grown from about \$5 billion to \$40 billion.

In 2011, HP shipped about 52.3 million printers, 62.3 million PCs, and 2.8 million servers worldwide. By revenue, HP is the 10th largest company in the U.S. (*Fortune* 500 2012) and the 31st largest in the world, according to *Fortune* Magazine (*Fortune* Global 500 2012).

While we are very innovative internally, HP is also an acquisitive company. In recent years HP has made a number of strategic acquisitions of companies within and outside of the U.S., including Compaq, EDS, Autonomy, 3Com, 3Par, Palm, Mercury Interactive, ArcSight, Indigo, and Peregrine Solutions.

HP's FY2011 GAAP effective tax rate, or ETR, was 21.2%. As you know, the ETR is the blended worldwide effective tax rate which incorporates both the rate of tax on U.S. operations and the rate of tax on foreign operations.

We are in very competitive global industries, such as PC's, printing and services. We have significant foreign competitors, most of which have much lower effective tax rates than HP. Such competitors with their average effective tax rates for the five years from 2006 to 2010 and home country are Lenovo (13.8% -- China), Samsung (16.5% -- Korea), and Wipro (13.9% -- India).

In summary, for over 70 years, HP has been a symbol of American innovation and the entrepreneurial spirit that helps drive the U.S. economy. We continue to lead in the highly competitive global IT market and we are a very significant contributor to American innovation, jobs and economic prosperity.

SPECIFIC QUESTIONS THE COMMITTEE HAS ASKED HP TO ADDRESS

The Committee has asked how HP complies with accounting principles, such as APB 23, and tax obligations such as those provided in the U.S. Internal Revenue Code ("IRC"). It asked HP to address its current repatriation strategy. Before I address these issues in more detail, I want to emphasize for the Committee that HP has always had an extremely productive and professional relationship with the Internal Revenue Service ("IRS"). As is customary for a company of our size, HP has been under continual audit by the IRS. The IRS has permanent offices at two HP facilities in the U.S. HP has been an early adopter of many of the IRS programs to resolve issues, including the accelerated issue resolution program (which HP assisted in the development of), early referral to Appeals, pre-filing agreements, and the IRS Advanced Pricing Agreement ("APA") program. HP's transfer pricing was subject to an APA from 1993 through 2010 and we are currently working on a renewal of that agreement for years after 2010.

Now, let me address more specifically HP's compliance with the accounting principles and tax law implicated by the Committee's inquiry. In summary, HP prepares documents for both accounting purposes, which are included in HP's financial reports that are made public, and its private, confidential and proprietary information that is included in its tax returns in other countries and in the U.S. HP does not operate in a vacuum. Ernst & Young (E&Y), one of the Big Four accounting firms, is HP's independent auditor and conducts extensive reviews of HP's compliance with accounting principles such as APB 23. E&Y also provides advice on how HP complies with its tax obligations. The IRS continuously and extensively audits HP's U.S. tax return. In addition, the SEC reviews all of HP's public financial reporting, including its compliance with APB 23. The financial community that analyzes companies such as HP expertly review and report to the public on issues such as HP's compliance with APB 23, the amount of tax HP pays, and compares HP with its peer companies.

APB 23 AND INDEFINITELY REINVESTED EARNINGS

The Committee requested that HP address in its testimony accounting principle APB 23 (codified ASC 740-30-25-17). Under APB 23, a U.S. parent corporation is required to accrue tax liabilities on all undistributed earnings of its foreign subsidiaries, with certain exceptions, including to the extent the U.S. parent corporation can demonstrate its undistributed foreign earnings have been “indefinitely reinvested.” In determining whether earnings have been “indefinitely reinvested,” HP can demonstrate specific plans for reinvestment, considering past experience and plans for future operations. APB 23 also requires that HP demonstrate that the U.S. parent corporation has sufficient cash flow so that overseas earnings will not need to be repatriated to the U.S. Examples of “indefinitely reinvested funds” include the value of overseas factories, unsold inventories of goods from those factories, and many other types of assets, including cash needed to meet foreign payroll, intellectual property licensing assessments and many other routine needs. As HP has grown, for example, to be a company in 2011 that had approximately 65% of its revenue from non-US sources, it was both logical and necessary that HP’s “indefinitely reinvested” APB 23 amount will increase.

HP’s representation of what is “indefinitely reinvested” is ultimately made by me. It is reflected in what is called a “rep letter” that is provided to our auditors, Ernst and Young, on an annual basis. I use my three decades of experience in drafting the narrative in the “rep letter” that explains my judgments. In determining the amount of “indefinitely reinvested earnings,” I consult with HP’s Treasurer, Mr. McMullen and his team, our Chief Financial Officer, and others within HP. I take into account prior years’ history, working capital forecasts, long-term liquidity plans, capital improvement programs, merger and acquisition and other investment plans, U.S. cash needs, the expected business cycle, restrictions on distributions in certain countries, and country risk. E&Y has access to internal HP corporate data that supports this annual reported conclusion before it is made public in HP’s public reports. E&Y can ask for additional information about any of the representations I have made, and seek any underlying data available to the corporation to test my decision. The SEC can carefully review HP’s publicly reported conclusions in its annual financial report. The SEC can audit or investigate as it sees fit, and ask for additional information from HP. The public investing community and analysts also carefully review HP conclusions. Year over year changes in HP’s APB 23 reporting are completely visible to the public and regulators in HP’s annual financial report.

INTERNAL REVENUE CODE SECTION 956 AND LOANS FROM HP FOREIGN AFFILIATES TO HP IN THE UNITED STATES

The Committee asked us to address the impact of IRC sections that relate to the issues here. Under IRC Sections 951(a)(1)(B) and 956(a)(1), a U.S. parent corporation may be required to include in its income the quarterly average amount of U.S. property held by its Controlled Foreign Corporations (“CFC”). Generally, a loan from a CFC to its U.S. parent is treated as an investment in U.S. property under IRC section 956(c)(1)(C).

Under the applicable rules, a loan from a CFC to its U.S. parent will only be treated as an investment in U.S. property if it is outstanding at the close of the CFC’s fiscal quarter. A series of loans that collectively span over the CFC’s quarter may be treated as a single loan by the IRS

or the courts under general tax principles. Based on IRS guidance, if the period of time between separate loans “is not brief compared to the overall period the debt obligations are outstanding,” such loans will not be aggregated in this manner (see Rev. Rul. 89-73).

HP’s non-U.S. structure includes the Belgian Coordination Center (BCC). BCC receives cash from most of HP’s non-U.S. subsidiaries by way of capital contributions and loans. In effect, the BCC serves as an internal bank so that HP’s funds can be made available to other HP entities for approved corporate purposes. As I will describe further, BCC’s funds may be used in part to buy a foreign company. BCC’s funds can be used to fund distributions to HPCO, which are fully taxed in the U.S. BCC can lend money within the HP family and is paid market interest rates for those loans. When HP acquired Compaq, Compaq had a foreign subsidiary in the Cayman Islands which served a similar function as HP’s BCC. HP has continued to use that company, CCHC, for the same purposes as the BCC. HP’s loans that are made from its foreign subsidiaries, such as the BCC and CCHC, are completely and consistently in compliance with Internal Revenue Code Section 956 and IRS guidance concerning such activities. In its most recently completed audit of HP’s tax returns, the IRS reviewed detailed information regarding these loans and did not find that they were contrary to the Internal Revenue Code or IRS guidance in the area.

HP HAS MANY SOURCES OF FINANCING, ONLY ONE OF WHICH IS LOANS FROM ITS FOREIGN SUBSIDIARIES

HP’s U.S.-based headquarters company, HPCO, is the ultimate parent company of all HP’s foreign subsidiaries. HPCO has many sources of funds. Some of these sources include:

- Commercial paper (CP) issuance
- Earnings from operations
- Improvements in working capital management
- Bond issuances (debt financing)
- Revolving lines of credit (HP has never used this but could if needed. It has many billions of bank committed revolving lines of credit).

HPCO has many sources of income from outside the U.S. These sources include but are not limited to:

- Previously Taxed Income (PTI) distributions
- Royalty payments to HPCO
- End of month “netting” with other HP assets of monies owed
- Foreign exchange gain (or loss)

- Dividend distributions to HPCO
- Basis distributions
- Alternating and other loans

As described above, HP has available, and utilizes, multiple sources of liquidity to run its operations. The starting point for HP sources of funds begins with the cash flow generated from operations. Although the Committee is specifically interested in the company's alternating loans, the other consistently utilized sources of liquidity are U.S. commercial paper for short-term funding needs, and capital market debt (multiple maturities typically ranging from 2 all the way up to 30 years) for longer term needs. (HP also has \$7.5B in revolving credit facilities with our bank group, but has not historically drawn on these.)

- Alternating loans: For approximately the past two fiscal years (FY11 and FY12 YTD), our alternating loan balance outstanding from loan period to loan period (45 days) has averaged approximately \$1.6B. The comparable average balance quarter to quarter over a similar period for our commercial paper program was roughly \$1.9B.
- Capital market debt: Most significant relative to our capital needs of late, we have also issued a cumulative amount of long-term U.S. debt totaling approximately \$16.6B for the two-year period (FY11 and FY12 YTD).

Comparing average alternating loan balances and CP averages over the period FY11-FY12 YTD, loans and CP represent approximately 10% and 12% of total U.S. long-term debt issued, respectively. Clearly, HP's U.S. long-term debt issuances represent a much greater share of its liquidity than that provided by alternating loans. In fact, the average value of alternating loans in use over the past two fiscal years (FY11-FY12 YTD) represents only 9% of the liquidity provided by average CP and new U.S. long-term debt combined for the period. Additionally, the average value of alternating loans in use over the past two fiscal years (FY11-FY12 YTD) only represent 5% of the total HP debt outstanding at the end of our most recent fiscal third quarter.

Although the alternating loans constitute a portion of our funding for HP, it has only represented a fraction of capital sources utilized over the past two years. It is also important to note there have been times when no such loans were in place, and HP's CP program has always been available to augment/true up short-term liquidity within quarters in the U.S. For example, in 2010, over a three-day period (at the end of May or beginning of June), HP raised over \$3 billion in commercial paper, part of which was used to fund the acquisition of Palm.

HP uses offshore cash to fund other activities as well, including international operations on an ongoing basis and acquisitions where appropriate – Autonomy being the most recent example, where offshore funds financed approximately \$4B of the purchase price for the U.K.-based acquisition.

HP'S REPATRIATION STRATEGY

HP makes strategic decisions to bring back to the U.S. earnings from its foreign operations when they are needed in the U.S., and when such earnings are not needed abroad. It would not make business sense to repatriate such funds, have them taxed at a 35 percent U.S. tax rate, and then send them back to HP's foreign subsidiaries for immediate needs, such as the acquisition of a foreign business like Autonomy in 2011.

HP does repatriate funds to help pay unique U.S. expenses. Such expenses include stock buy backs, pension plan contributions, U.S. payroll expenses, research and development expenses, making IP royalty payments (including royalty payments to Microsoft who is at this hearing), among many other needs. Funds are permanently repatriated from HP's foreign subsidiaries through a variety of methods and are subject to U.S. tax in accordance with the Internal Revenue Code and IRS guidance as well as applicable accounting principles; these methods include dividend payments, royalty payments, including prepaid royalties, distributions of previously taxed income and others. Prepaid royalties involve the payment of future royalty expenses from HP's operating subsidiaries to HP for the license of certain IP rights. These payments are subject to tax upon receipt in the U.S. A distribution of previously taxed income refers to distribution of earnings upon which HP has already incurred a U.S. tax liability. HP also distributes earnings that have not been taxed previously and incurs tax liabilities upon distribution.

CONCLUSION

HP takes seriously its obligations to accurately follow accounting principles and to pay the taxes that it owes. To successfully operate a U.S.-headquartered worldwide company in a highly competitive global market requires that HP account for and pay what it owes U.S. and foreign governments. HP plays an important role in the U.S. economy and employs many U.S. citizens at the cutting edge of technology.

Mr. McMullen and I are available for your questions.